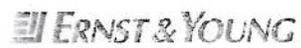


SCHEDULE OF INVESTMENTS

Power Authority of the State of New York
Year Ended December 31, 2008
With Report of Independent Auditors



Power Authority of the State of New York

Schedule of Investments

Year Ended December 31, 2008

Contents

Report of Independent Auditors.....	1
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2
Schedule of Investments	4
Notes to Schedule of Investments.....	5

Report of Independent Auditors

Power Authority of the State of New York
White Plains, New York

We have audited, in accordance with auditing standards generally accepted in the United States, the financial statements of the Power Authority of the State of New York (the Authority) for the year ended December 31, 2008, and have issued our report thereon dated February 26, 2009. We also have audited the accompanying Schedule of Investments of the Authority as of December 31, 2008. This schedule is the responsibility of the Authority's management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards for financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Investments is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule, assessing the accounting principles used and significant estimates made by management, and evaluating the overall schedule presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents fairly, in all material respects, the Schedule of Investments of the Authority at December 31, 2008, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2009 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Ernst & Young LLP

February 26, 2009

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Power Authority of the State of New York
White Plains, New York

We have audited the financial statements of the Power Authority of the State of New York (the Authority), as of and for the year ended December 31, 2008, and have issued our report thereon dated February 26, 2009. We have also audited the Statement of Investments as of and for the year ended December 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the *Investment Guidelines for Public Authorities*, issued by the Office of the State Comptroller of the State of New York as required by the provisions of section 2925(3)(f) of the Public Authorities Law; and the investment guidelines established by the Authority.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliability in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, the provisions of section 2925(3)(f) of the New York State Public Authorities Law and the Authority's investment guidelines, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an object of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters regarding internal control that we will report to management of the Authority in a separate letter.

This report is intended solely for the information and use of the Board of Trustees, management and the Office of the State Comptroller of the State of New York, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

February 26, 2009

Power Authority of the State of New York

Schedule of Investments

December 31, 2008
(In millions of dollars)

Operating fund		\$ 955
Capital fund		214
Restricted funds:		
Decommissioning trust fund	\$ 812	
Petroleum Overcharge Restitution, Clean Air for Schools Project and Lower Manhattan Energy Independence Initiative Funds	60	
ART Note debt service reserve fund	<u>20</u>	
Total restricted funds		<u>892</u>
		<u>\$2,061</u>

See accompanying notes.

Power Authority of the State of New York

Notes to Schedule of Investments

December 31, 2008

1. Organization and Functions of the Authority

The Power Authority of the State of New York (Authority) is a corporate municipal instrumentality and political subdivision of the State of New York (State) created in 1931 by Title 1 of Article 5 of the Public Authorities Law, Chapter 43-A of the Consolidated Laws of the State, as amended (Power Authority Act or Act).

The Authority is authorized by the Power Authority Act (Act) to help provide a continuous and adequate supply of dependable electricity to the people of the State. The Authority generates, transmits and sells electricity principally at wholesale. The Authority's primary customers are municipal and rural cooperative electric systems, investor-owned utilities, high-load-factor industries and other businesses, various public corporations located within the metropolitan area of New York City, including the City of New York, and certain out-of-state customers.

The Authority's Trustees are appointed by the Governor of the State, with the advice and consent of the State Senate. The Authority is a fiscally independent public corporation that does not receive State funds or tax revenues or credits. It generally finances construction of new projects through sales of bonds and notes to investors and pays related debt service with revenues from the generation and transmission of electricity. Accordingly, the financial condition of the Authority is not controlled by or dependent on the State or any political subdivision of the State. However, pursuant to the Clean Water/Clean Air Bond Act of 1996 (Bond Act), the Authority administers a Clean Air for Schools Projects program, for which \$125 million in Bond Act monies have been allocated for effectuation of such program. Also, in accordance with legislation enacted in 2006, the Authority was appropriated \$25 million to implement the Lower Manhattan Energy Independence Initiative involving certain clean energy and energy efficiency measures.

Income of the Authority and properties acquired by it for its projects are exempt from taxation. However, the Authority is authorized by Chapter 908 of the Laws of 1972 to enter into agreements to make payments in lieu of taxes with respect to property acquired for any project where such payments are based solely on the value of the real property without regard to any improvement thereon by the Authority and where no bonds to pay any costs of such project were issued prior to January 1, 1972.

2. Summary of Significant Accounting Policies for Investments

- a. The Authority accounts for investments at their fair value. Fair value is determined using quoted market prices. Investment income includes changes in the fair value of these investments.

Power Authority of the State of New York

Notes to Schedule of Investments (continued)

2. Summary of Significant Accounting Policies for Investments (continued)

- b. Realized and unrealized gains and losses on investments are recognized as investment income in accordance with GAS No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

3. Investment Criteria

Investment of the Authority's funds is administered in accordance with the applicable provisions of its Bond Resolution entitled "General Resolution Authorizing Revenue Obligations" adopted February 24, 1998, as amended and supplemented up to the present time, and with the Authority's investment guidelines. These guidelines comply with the New York State Comptroller's investment guidelines for public authorities and were adopted pursuant to Section 2925 of the New York Public Authorities Law.

Investment Summary
(in Millions)

Estimated Fair Value
December 31, 2008

	Total	Total Restricted Funds	Decommissioning Trust Fund	Restricted Funds			Current Assets
				POCR & CAS Projects Funds* & Other	ART Note Debt Reserve	Capital Fund	
U.S. Government /Agencies:							
Treasury Bills	\$ 60	\$ 60		\$ 60			
Treasury Notes							\$ 43
GNMA	43						
	103	60		60			43
Other debt securities>							
FNMA	380					\$ 28	352
FHLMC	85	5			\$ 5	19	61
FHLB	275	9			9	45	221
FFCB	278					75	203
All Other	124	6			6	47	71
	1,142	20			20	214	908
Repurchase Agreements	4						4
Portfolio Manager	812	812	\$ 812				
Total Investments	\$ 2,061	\$ 892	\$ 812	\$ 60	\$ 20	\$ 214	\$ 955
Summary of Maturities Years							
0-1	\$ 251	\$ 60	\$ 24	\$ 60		\$ 39	\$ 152
1-5	747	20	72		\$ 20	131	596
5-10	131		103			14	117
10+	120		380			30	90
Common Stock	812	812	233				
	\$ 2,061	\$ 892	\$ 812	\$ 60	\$ 20	\$ 214	\$ 955

Power Authority of the State of New York

Notes to Schedule of Investments (continued)

3. Investment Criteria (continued)

a. Credit Risk

The Authority's investments are restricted to (a) collateralized certificates of deposit, (b) direct obligations of or obligations guaranteed by the United States of America or the State of New York, (c) obligations issued or guaranteed by certain specified federal agencies and any agency controlled by or supervised by and acting as an instrumentality of the United States government, and (d) obligations of any state or any political subdivision thereof or any agency, instrumentality or local government unit of any such state or political subdivision which is rated in any of the three highest long-term rating categories, or the highest short-term rating category, by nationally recognized rating agencies. The Authority's investments in the debt securities of Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB) and Federal Home Loan Mortgage Corp. (FHLMC) were rated Aaa by Moody's Investors Services (Moody's) and AAA by Standard & Poor's (S&P) and Fitch Ratings (Fitch). All of the Authority's investments in U.S. debt instruments are issued or explicitly guaranteed by the U.S. Government.

The Authority does not engage in securities lending or reverse repurchase agreements.

b. Interest Rate Risk

Securities that are the subject of repurchase agreements must have a market value at least equal to the cost of the investment. The agreements are limited to a maximum fixed term of five business days and may not exceed the greater of 5% of the investment portfolio or \$100 million. The Authority has no other policies limiting investment maturities.

c. Concentration of Credit Risk

There is no limit on the amount that the Authority may invest in any one issuer; however, investments in authorized certificates of deposit shall not exceed 25% of the Authority's invested funds. At December 31, 2008, \$380 million (18 percent), \$279 million (13 percent), and \$274 million (13 percent) of the Authority's investments were in securities of Federal National Mortgage Association (FNMA or Fannie Mae), Federal Farm Credit Bank (FFCB) and Federal Home Loan Bank (FHLB), respectively.

Power Authority of the State of New York

Notes to Schedule of Investments (continued)

4. Capital Funds

Borrowed funds for a specific construction project are deposited in a capital fund account. Earnings on fund investments are held in this fund to be used for construction. Earnings on unexpended funds are credited to the cost of the related project (construction work in progress) until completion of that project.

5. Restricted Funds

Decommissioning Fund

The Decommissioning Trust Fund is managed by external investment portfolio managers. Under the Decommissioning Agreements, the Authority will make no further contributions to the Decommissioning Funds. The Authority's decommissioning responsibility will not exceed the amounts in each of the Decommissioning Funds. Therefore, the Authority's obligation is not affected by various risks which include credit risk, interest rate risk, and concentration of credit risk. In addition, the Decommissioning Trust Fund is not required to be administered in accordance with the Authority's or New York State investment guidelines.

Petroleum Overcharge Restitution (POCR), Clean Air for Schools (CAS) Project and Lower Manhattan Energy Independence Initiative Funds

Legislation enacted into State law from 1995 to 2002 and 2007 authorizes the Authority to utilize petroleum overcharge restitution (POCR) funds and other State funds (Other State Funds), to be made available to the Authority by the State pursuant to the legislation, for a variety of energy-related purposes, with certain funding limitations. The legislation also states that the Authority "shall transfer" equivalent amounts of money to the State prior to dates specified in the legislation. The use of POCR funds is subject to comprehensive Federal regulations and judicial orders, including restrictions on the type of projects that can be financed with POCR funds, the use of funds recovered from such projects and the use of interest and income generated by such funds and projects. Pursuant to the legislation, the Authority is utilizing POCR funds and the Other State Funds to implement various energy services programs that have received all necessary approvals.

The disbursements of the POCR funds and the Other State Funds to the Authority, and the Authority's transfers to the State totaling \$60.8 million to date, took place from 1996 to 2007. The POCR funds are included in restricted funds in the Balance Sheet. The funds are held in a separate escrow account until they are utilized.

Power Authority of the State of New York

Notes to Schedule of Investments (continued)

5. Restricted Funds (continued)

The New York State Clean Water/Clean Air Bond Act of 1996 made available \$125 million for Clean Air for Schools Projects (CAS Projects) for elementary, middle and secondary schools, with the Authority authorized to undertake implementation of the CAS Projects program. The CAS Projects are designed to improve air quality for schools and include, but are not limited to, projects that replace coal-fired furnaces and heating systems with furnaces and systems fueled with oil or gas. The Authority anticipates that the funding for the projects will allow the conversion of 80 schools, of which 76 have been completed. The conversion program is currently scheduled to be completed in 2009. CAS Projects funds totaling \$125 million to date were transferred to the Authority and held in an escrow account for the CAS Projects program.

In accordance with legislation enacted in 2006, the Authority was appropriated \$25 million to implement the Lower Manhattan Energy Independence Initiative involving certain clean energy and energy efficiency measures.

As of December 31, 2008, POCR, CAS Project, and Lower Manhattan Energy Independence Initiative funds are \$24 million, \$11 million and \$25 million, respectively.

ART Notes Debt Service Reserve Fund

In accordance with the Adjustable Rate Tender Note Resolution, a Note Debt Service Reserve account has been established in the amount of \$20 million.

6. Other

All investments are held by designated custodians in the name of the Authority.

The accompanying Schedule of Investments does not include cash and cash equivalents and short-term investments with maturities, when purchased, of three months or less.

7. Income From Investments

During the year ended December 31, 2008, the Authority had income from investments of \$80 million.

Power Authority of the State of New York

Notes to Schedule of Investments (continued)

8. Other Postemployment Benefits Trust Fund (OPEB Trust)

In December 2006, the Authority's Trustees authorized staff to initiate the establishment of a trust for OPEB obligations (OPEB Trust). During 2008, the Authority partially funded its prior service OPEB obligation by contributing \$125 million to the OPEB Trust Fund in addition to the \$100 million funded in the prior year. The Authority has funded approximately sixty-five percent of its prior service OPEB obligation. The Authority will evaluate the performance of the OPEB Trust before making decisions on additional actions. As of December 31, 2008, the OPEB Trust Fund amounted to \$225 million. The fair value of the Trust Fund investments at December 31, 2008 was \$191 million. The OPEB Trust Fund is not required to be administered in accordance with the Authority's or New York State investment guidelines. The OPEB Trust is held by an independent custodian for the benefit of the Authority's retired employees. Therefore, the OPEB Trust Fund is not included as an asset in the Authority's balance sheet and accordingly is not included in the Schedule of Investments herein.